

Issa to Receive FRBNY Documents by Tomorrow

WASHINGTON. D.C. – House Committee on Oversight and Government Reform Ranking Member Darrell Issa (R-CA) released the following statement regarding the release of a report by the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) entitled, “Factors Affecting Efforts to Limit Payments to AIG Counterparties:

“Behind closed doors and with no approval from Congress, the FRBNY added an additional \$13 billion of debt on the backs of taxpayers to give a backdoor bailout to AIG’s creditors, including Goldman Sachs, Merrill Lynch, Société Générale and Deutsche Bank,” said Issa.

“The lack of transparency and accountability in this transaction is disturbing enough. However, there is evidence that this \$13 billion expenditure was entirely unnecessary. All of this begs the question why the FRBNY would not drive a better bargain for the American taxpayer. If the FRBNY thought it was necessary to provide another taxpayer bailout of AIG’s counterparties, it should have come to Congress and made its case that this action was necessary.”

Key Passages:

Page 19: As a policy matter, FRBNY was unwilling to use its leverage as the regulator for several of the counterparties to compel concessions, in part because in the negotiations it was acting as a creditor of AIG and not as the counterparties' primary regulator

Page 29: While there can be no doubt that a regulators' inherent leverage over a regulated entity must be used appropriately, and could in certain circumstances be abused, in other instances in this financial crisis regulators (including the Federal Reserve) have used covertly coercive language to convince financial institutions to take or forego certain actions.

Page 30: Then-FRBNY President Geithner and FRBNY's general counsel deny that this was a relevant consideration for the AIG transactions. Irrespective of their stated intent, however, there is no question that the *effects* of FRBNY's decisions – indeed, the *very design* of the federal assistance to AIG – was that tens of billions of dollars of Government money was funneled inexorably and directly to AIG's counterparties...it was fully contemplated that such funding would be used by AIG to make tens of billions of dollars of collateral payments to the AIG counterparties....by providing AIG with the capital to make these payments, Federal Reserve officials provided AIG's counterparties with tens of billions of dollars they likely would have not otherwise received had AIG gone to bankruptcy.

On October 30th, Ranking Member Issa sent letters to the Federal Reserve Bank of New York (FRBNY) and AIG requesting "all records and communications referring or relating to the FRBNY's negotiations with AIG's credit default swaps (CDS) counterparties that resulted in \$13 billion of debt put on the backs of the American taxpayers. FRBNY has agreed to Issa's request and is scheduled to produce the requested documents by tomorrow evening.

While the details of the AIG counterparty deal is the central component to Issa's investigation, he is hopeful that the produced documents will shed light on the role that FRBNY Chairman Stephen Friedman, a member of the board of Goldman Sachs, played in the deal. Friedman reportedly purchased more than 50,000 shares of Goldman Sachs before knowledge of the FRBNY's bailout of Goldman Sachs and other AIG counterparties became public knowledge.

"According to news reports, this transaction has earned Mr. Friedman over \$5 million in profit," Issa noted. "These allegations raise serious questions about the transparency, accountability and wisdom of the FRBNY's actions."

Ranking Member Issa is expected to receive from FRBNY all records and communications referring or relating to the FRBNY's negotiations with AIG's CDS counterparties, including but not limited to:

- a) Emails, phone logs and meeting notes of the following people: Timothy Geithner, Stephen Friedman, Tom Baxter, and Sarah Dahlgren;

- b) Term sheets, including drafts, relating to AIG's payments to its CDS counterparties;

c) Emails, phone logs and meeting notes referring or relating to public disclosure of AIG's payments to its CDS counterparties including disclosure to the SEC.